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OPERATIONS OF LENDERS IN THE SMALL LOAN FIELD FROM 1939 TO THE PRESENT†

GEORGE A. SPIVA, JR.*

The nature of the small loan business is a subject clouded by much confusion, unclear thinking, and ignorance. The lack of factual data pertaining to the business has led to misunderstandings which have resulted in charges against the business which were not justified and claims for the business which were of dubious character. This article has as its purpose the presentation of information regarding the operations of lenders in the small loan field in Missouri from 1939 to the present time. The selection of the year 1939 is perhaps a bit arbitrary but it offers a convenient starting point for several reasons. Two important amendments to Missouri's small loan law were enacted in that year.¹ The two amendments outlawed salary buying and increased the interest rate on loans of \$100 and less from 2½ per cent per month to 3 per cent per month. The year 1939 has also served as the base year for many important business indices and has come to be regarded as the "normal" year to which present experience is most often compared.

It must be remembered that the war years covered in this report were unnatural times for lenders as well as for other businesses. Loan volume was increasing until the adverse affect of the Federal credit regulations on consumer credit began to be felt by the lending business. Regulation W and the Soldiers and Sailors Civil Relief Act both served to reduce loan volume in Missouri. The latter act empowered the court to stay any action or proceeding to recover money owed by a person in military service, for the period of such service and generally for three months thereafter, unless the court finds that such person's ability to repay the obligation incurred before entry into the service has not been materially affected by such service. No such obligation, in substance can bear interest at a rate greater than 6 per cent per annum, except that the court may, under certain circumstances and upon application of the lender, grant a higher rate. .

Regulation W imposed regulation on terms of purchase of durable goods and the terms of repayment of cash loans of \$1500 or less. "Regulation W

†This article is a portion of a larger work submitted as a thesis for a masters degree in economics and written under the supervision of Dr. Truman Tracy.

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2. Gisler, *Legal and Historical Background of Missouri Small Loan Problem*, *supra*, p. 207.

of the Federal Reserve Board has caused more rapid liquidation of loan balances by its reduction of the maximum maturities which are permitted by State Law, the lack of consumer goods has caused a continued decrease in the amount of goods available which normally would be financed, and the borrowing public, that is, the younger men establishing families and acquiring personal goods are largely in the Armed Forces. Interest is either waived or computed at 6 per cent per annum on accounts of borrowers who have entered the Armed Services. Wage earners have enjoyed substantial increase in income, and this together with a corresponding decrease in goods available, has resulted in reduced indebtedness."²

SMALL LOAN COMPANIES

The most important lenders in the small loan field have been the so-called small loan companies, so their operations should be considered first and in the greatest detail. Unless otherwise indicated, all figures in this section are taken from the summary of the reports of small loan companies compiled by the Commissioner of Finance of the state of Missouri.

It has been argued that the two amendments to the small loan law in 1939 would enable the licensed lenders to more adequately serve the prospective borrower of \$100 and less. To illustrate the results of these two changes in our law reference is made to table I. The Commissioner of Finance reported in 1942 that "the table of loans of \$100 and less shows that the per cent of increase of this type of loan has consistently exceeded the percentage of all loans made over the 1938 figures." A complete breakdown according to loan size is given in table II.

TABLE I
LOANS OF \$100 OR LESS

Year	Total Loans	Per Cent Increase Over 1938	Loans of \$100 or Less	Per Cent Increase Over 1938
1938	134,064		55,249	
1939	186,569	39	85,443	54.6
1940	232,428	73	105,512	91.5
1941	217,170	62	95,159	72.2
1942	183,541	37	85,416	54.0
1943	198,438	48	92,073	66.7
1944	Not Contained in Annual Report			
1945	190,142	42	68,159	23.3

2. ANNUAL REPORT OF COMMISSIONER OF FINANCE (1943).

TABLE II
NUMBER OF LOANS OF \$300 AND LESS MADE DURING THE YEAR
ACCORDING TO THE SIZE OF THE LOAN

	1938	1939	1940	1941	1942	1943	1944	1945
\$50 and less	21,800	40,031	52,668	46,764	40,090	39,464	Not	23,163
\$50-\$100	33,449	45,412	52,844	48,395	45,326	52,609	Reported	44,996
Total \$100 and less	55,249	85,443	105,512	95,159	85,416	92,073		68,159
\$100-\$150	28,761	34,880	43,778	40,311	33,830	35,889		33,934
\$150-\$200	17,056	22,935	28,027	26,645	21,761	25,282		28,416
Total \$100-\$200	45,817	57,815	71,805	66,956	55,591	61,171		62,350
\$200-\$300	32,998	43,311	55,101	55,055	42,534	45,194		59,533
Total All Loans	134,064	186,569	232,428	217,170	183,541	198,438		190,042

The number of loans made in amounts of \$100 and less offers some interesting considerations regarding the social desirability of legally licensed small loan companies. Laws permitting the operations of such lenders are for the protection of the small borrower, offering him the services of a licensed lender who must limit his charges to those allowed by law as opposed to the bootleg lender whose charges are regulated only by what the traffic will bear. The demand for small loans is best illustrated by the number of loans of this type made by the Missouri lenders. This demand was met by the small loan companies at a rate of 3 per cent per month. Even at this rate however, the Missouri house committee that investigated the small loan business reported in 1943 "the evidence produced before the committee overwhelmingly showed that loans of \$100 and less were made at a loss and not at a profit."³ The committee further reported that one of the reasons small loan companies furnished a complete loan service even in amounts of \$100 and less was "the realization of their social responsibility to make the loans." To those who insist that small loan companies are in business solely to make large profits at their "high" rates, it is asked, if this is so why would the companies make so many loans on which they made no profit at all? Also how high is a high rate? High relative to what? Obviously, a 3 per cent

3. Journal of the House of Representatives Vol. II, 62nd General Assembly, 1943.

per month rate which results in a loss on loans to which it applies is not exorbitant.

In addition to a realization of their social responsibility, there are other reasons for the action of the companies in making so many small loans. Another reason was the 3 per cent per month rate. The one-half of 1 per cent increase in 1939 on loans of \$100 and less greatly eased the load of small loan companies in carrying these accounts and allowed them to serve larger numbers of borrowers. Another important reason lies in the advertising aspect. A small loan company's best advertisement is a satisfied borrower. The \$10 loan account today may not (surely will not) be profitable but that borrower may represent a potential \$250 account at a later date. Furthermore the \$10 borrower will, in all likelihood spread the word among his friends that such-and-such firm offers a satisfactory and accomodating service.

Table III, moreover, indicates that the average rate collected was lower than the average rate allowed by law. The author has, in no case, found evidence of overcharges, exorbitant charges, or unfairness to the borrower on the part of licensed lenders. The small loan companies police their own ranks and agree generally that this is both necessary and desirable. From time to time, uninformed or unscrupulous lenders, licensed or otherwise, will resort to practices which are not in the best interests of the business as a whole. One firm may bring disrepute upon the entire industry and it is in the interest of all concerned that the possibilities of such an action be kept at a minimum. This police action should not be regarded as an indication that the small loan business is particularly susceptible to malpractices, for other industries have similar police associations maintained for the good of the business. Better Business Bureaus operate to protect the innocent from the abuses of the unscrupulous.

TABLE III
AVERAGE MONTHLY RATE COLLECTED, BALANCE, AND MONTHLY EXPENSE

Year	Average Balance	Average Rate Collected Per Cent	Average Monthly Earning	Average Expense	Net Average Earnings
1938	\$108.36	2.40	\$2.60	\$1.90	\$0.70
1939	112.23	2.41	2.70	1.90	0.80
1940	116.12	2.40	2.79	2.06	0.73
1941	117.15	2.39	2.80	2.23	0.57
1942	101.54	2.43	2.47	2.18	0.29
1943	109.67	2.33	2.56	2.13	0.43
1944	Not Contained in Annual Report				
1945	131.79	2.28	3.00	2.49	0.51

An examination of table IV on the security behind loans of \$300 and less indicates to a large degree the type of borrower served by small loan companies as distinguished from the customers of other lenders. Borrowers from small loan companies typically cannot borrow from banks. For one reason or another they cannot meet the rigid requirements of such institutions. The security they offer as collateral shows plainly that small loan company customers, in the absence of these companies, would most likely be without a source of credit.

TABLE IV
NUMBER OF LOANS OF \$300 AND LESS MADE, ACCORDING
TO THE SECURITY OF THE LOAN

Primary Security of Loans Made	1939	1940	1941	1942	1943	1944	1945
Chattel Mortgage on Household Goods	97,737	114,460	103,698	86,846	89,384	Not Reported	90,359
Automobiles	19,834	22,102	23,568	18,478	21,038		23,691
Other Chattels	2,735	3,554	3,309	3,504	3,592		2,840
Co-maker or Endorsed Notes	17,950	26,041	18,229	11,312	9,745		14,968
Single Name Notes	47,848	65,770	68,027	63,267	74,278		57,499
Wage Assignments	23	0	0	0	0		0
Other Considerations	442	501	339	134	401		685
Total	186,569	232,428	217,170	183,541	198,438		190,042

The largest number of loans are secured by a chattel mortgage on household goods, mainly furniture. This, however, does not represent concrete security but, for the most part, moral security. In practically every case the value of furniture, if repossessed by the lender, brings only a fraction of the amount loaned on the security of these goods. Moreover, furniture is very seldom, if ever, repossessed by the lender if it is being used by the borrowers. Large chains demand ironclad reasons on the part of their office managers before they will allow repossession and some chains will not grant the permission at all. Their reasoning is that the furniture is such poor collateral to begin with that any ill-feeling or unfavorable publicity that might attach to repossession would more than offset the value of the furniture. About the only time lenders acquire the furniture of a

borrower who cannot repay his loan is when the borrower has abandoned the goods or calls the lender on his own initiative to come and get his household goods.

The second largest group of loans are unsecured or single name notes. It is hard to imagine any lending group other than small loan companies having 20 to 25 per cent of their loans secured only by a single name note as a general practice. Automobiles represent the best tangible collateral most borrowers from small loan companies can offer. Judging from conventional lending standards the typical borrower from small loan companies needs a specialized service. It requires specially trained personnel to administer a loan office whose customers fall in to what is often called the "poor risk" class. Small loan companies have taken the initiative in developing and training people in the peculiarities of the small loan business which partially accounts for the large degree of success they have had in the field.

Table V shows that the number of suits and possessions filed and obtained by lenders and the sales of chattels obtained by lenders. For comparison the tables show the total number of loans made and the amount loaned during the period. In 1944, the Department of Finance made no breakdown of loans, security, etc., and showed only a balance sheet and an income statement in the annual reports. The figures shown, however, speak for themselves. The total number of accounts against which suits were filed during the years covered was less than $\frac{1}{2}$ of 1% of the total number of loans made. The table also indicates the willingness of the lenders to accommodate borrowers whose collateral would have been met with scorn on the part of most lenders. The difference between the amount due and the amount collected on sales by licensees is not a significant figure as a percentage of the total amount loaned and was more than offset by the goodwill created and the social benefit of the loans.

For small loan companies the constitutional provision brought a slow end to an era of satisfactory operation. The immediate results of the reduction of interest rates for all lenders to 8 per cent per annum varied among different lenders. Many of them tried to stay in business by one means or another, thinking that remedial legislation would soon be forthcoming. An independent operator in Kansas City reported his experience to the author as follows.⁴ In an attempt to offer his customers approxi-

4. Interview with Mr. C. H. Armsby of Kansas City, Mo., President of Missouri Association of Personal Finance Companies.

TABLE V
SUITS, POSSESSIONS AND SALES BY LICENSEES
FROM 1939 TO 1945 (EXCEPT FOR 1944)

Suits for recovery of judgment filed during the years	Number of Accounts	Amount Due	Number of Accounts	Amount Due	Amount Collected
(a) On which judgment was secured	4226	\$499,521.86	Attachments Sued out by Licensees During Years Against Wages or Salary of Borrower		
(b) Settled out of court without judgment being secured	486	\$105,686.56	1114	108,785.94	31,922.84
(c) Total	4712	\$605,208.42			
Possession of chattels obtained by licensee			Sales of chattels obtained by licensee		
(a) Household Goods by replevin					
1. When in use	13	\$ 1,753.47	103	14,989.68	7,093.53
2. When not in use	84	\$ 13,645.76	551	86,757.50	37,560.76
By voluntary surrender					
1. When in use	99	\$ 15,185.97	8	1,376.50	806.84
2. When not in use	523	\$ 81,528.98	73	13,014.23	5,305.24
(b) Automobiles					
1. With borrowers consent	1747	\$249,668.46	1675	241,347.44	155,136.67
2. Without consent	150	\$ 23,414.39	133	20,897.78	11,345.23
(c) Other chattels and property					
1. With borrowers consent	74	\$ 9,027.22	64	8,433.70	4,476.49
2. Without consent	60	\$ 5,922.59	46	4,396.98	2,768.37
(d) Total	2750	\$400,146.84	3827	499,999.75	256,515.97
Total Loans Made During the Period 1,208,188			Total Amount Loaned During the Period \$172,793,376.55		

mately the same service as in the past the lender became an agent of an insurance company in St. Louis and sold insurance along with the loan. The insurance commission resulted in about the same profit as was previously possible under the 3-2 ½ per cent per month interest rates. The lender reported that the borrowers were very satisfied with this arrangement and moreover a surprising number of claims were paid under the insurance provisions. Gradually, however, an old story began to repeat itself. Un-

scrupulous lenders began to use the insurance tie-in in a manner which finally resulted in the Commissioner of Insurance prescribing limits to the amounts of insurance that could be sold. Finally a court decision ruled that the insurance premiums plus the 8 per cent interest charge was all interest and was usurious. The decision was later overruled but it marked an end to the insurance tie-in for this lender. He resorted to buying retail paper and has been doing so since the court decision.

The manager of a large chain office had a somewhat different experience. Loans continued to be made at the 8 per cent rate where-ever possible. By 1949, however, with no new legislation forthcoming the office ceased making loans entirely and resorted to buying retail paper. During the period from 1945 to 1949 loan losses were high and the average size of the loan made increased to approximately \$190.⁵

Another chain office liquidated almost entirely after 1945. Few new loans were made at the 8 per cent rate and the office's former customers, for the most part, could no longer obtain credit. At one time this office had nearly 12,000 customers in the Kansas City area alone.⁶

In St. Louis many former customers of Missouri lenders went into Illinois to borrow from small loan companies in that state. A considerable amount of money has been loaned to Missouri borrowers by these Illinois lenders. Three cities, Alton, Granite City, and East St. Louis were the centers of Illinois lending to Missouri borrowers, and between October 1, 1949 and September 30, 1950 lenders in these areas made 23,366 loans to Missourians. The amount loaned was \$5,630,856.82 and the average size of the loan made was \$240.98.⁷ It is not difficult to see that the Illinois lenders were taking the "cream of the crop" of prospective borrowers. Not only Illinois but Nebraska and Iowa lenders actively solicit loans by mail from residents of Missouri. Between January 1, 1949 and June 1, 1950, Nebraska offices made 1188 loans totaling \$362,799.59 with the average loan being \$305.38.⁸ Small loan companies in Nebraska can lend up to \$1000 in amount which accounts for the average size exceeding \$300.

While it is too early yet to judge the effectiveness of Missouri's new small loan law some comments of those persons contemplating entering

5. Interview with Mr. Custance, Manager of the Personal Finance Company office in Kansas City

6. State Finance Co. of Kansas City.

7. Letter from Department of Insurance of Illinois.

8. Letter from Banking Commissioner of Nebraska.

business are worth mentioning. One aspect of the new law is particularly important. The interest rate is the lowest since the inception of our first small loan law in 1927 while operating expenses have increased drastically. It will cost $1\frac{1}{2}$ to 3 times as much to operate a small loan office now as it did from 1939 to 1945 while 2.218 per cent per month will bring in less gross interest than a $3-2\frac{1}{2}$ per cent per month rate standard. Salaries, advertising, office rent and taxes have doubled or tripled since 1939.

Most lenders contemplate entering business cautiously at first. One manager reported his only advertising would be direct mail to former customers. The low rate and high expense will most likely reduce the number of independent offices but the extent of the reduction is not readily ascertainable. Profits do not relate in any direct fashion to the size of the office but more to the efficient utilization of the resources of an office. Many independents do not want to become big operators, they prefer to remain small.

What conclusions can we draw from the material above? A picture emerges of a group of lenders who did meet a demand for loans of \$300 and less in a respectable manner. Serving a borrower who wanted small amounts of money on little or no tangible security and whose accounts are expensive to administer, the lenders nevertheless collected less interest than the law permitted. Obviously, in the absence of such lending institutions, vast numbers of borrowers will either be without credit entirely or will be forced to subject themselves to economic peonage at the hands of the loan sharks.

The author believes that before long the small loan company, as we have known it, will again become the dominant lender in the small loan field. They offer a service to the small borrower that he has not received from other lenders, personal service. Small loan companies have typically "met the borrower half way" which certainly is not so generally true of bankers. They will bring a welcomed surcease from the deplorable conditions of the past few years.

LOAN AND INVESTMENT COMPANIES

The legislative development of loan and investment company laws has already been discussed. Mr. Birkhead has indicated methods whereby lenders chartered under these laws directed their efforts toward manipulation of the laws in a manner never intended by the framers of the legisla-

tion.⁹ Unfortunately, the abuses of the law by the unscrupulous have often overshadowed the good work done by the legitimate lenders trying to operate for the benefit of the borrowers within the scope of the law.

An attempt to examine the activities of loan and investment companies in the small loan field is almost completely thwarted by the lack of information pertaining to such lenders. The loosely framed law did not require lenders chartered under the act to file data with the Commissioner of Finance regarding their operations. Not until 1943 was this situation remedied. An annual report was filed in 1945. However, the information was far from complete as only a balance sheet and income statement were included in the report. The balance sheet compared the year end situation for 1944 and 1945. The significant figures for our purposes showed loans and discounts increasing from \$7,151,721 in 1944 to \$10,701,057 in 1945.¹⁰ No breakdown of the number and amounts of various loan size groups was given so we can only speculate as to the character of the loans. After 1939 the small loan companies offered a complete loan service in amounts up to \$300 while credit unions partially satisfied the demand for loans not only of this size but in amounts up to their maximum limit of \$1000. It seems reasonable to assume that loan and investment companies concentrated on the \$300 to \$1500 loan bracket.

The Bailey Committee¹¹ report distinguished three types of lenders under the loan and investment company act. The three types and their practices are, briefly, as follows:

1. Morris plan lenders who charged an investigating fee plus 8 per cent per annum discount as the maximum charge. The effective rate of interest was, of course, considerably higher than 8 per cent. Little or no rebate was offered if the note was paid off before maturity. Security was generally a co-maker or some safe collateral. Both life and automobile insurance were sold as part of the loan transaction.

2. Automobile loan companies assessed a \$20 hazard fee plus an investigation fee plus 8 per cent discount plus insurance. The charges were repeated with each renewal and rebates of unearned charges were rare.

9. See *infra* p. 251.

10. *Consolidated Statement of Loan and Investment Licensees of Missouri*, Compiled by Department of Finance, 1945.

11. Judge Bailey was chairman of the committee that investigated the lending business and reported to the House in 1943. The conclusions and recommendations of the committee are in Volume II of the House Journal, 1943.

The committee reported that, "rates of charge exacted by this type of lender run into fabulously exorbitant figures."

3. Small lenders specialized in \$5, \$10, \$25 and some times \$50 loans. The charges included the \$20 hazard fee plus an investigation fee plus 8 per cent and these charges plus the short maturities, often pay-day to pay-day, resulted in outlandish rates being exacted from the borrowers.

In 1943, the year the committee reported to the House, statutory amendments eliminating the abuses of these lenders were enacted. The charges of loan and investment company operators is an excellent example of how a loosely framed law without adequate supervision and regulation can result in penalizing the borrower and prostituting legislation.

COMMERCIAL BANKS

The extent of the entry of commercial banks into what we commonly refer to as the "small loan" field is difficult to determine. The banker's role in meeting the demand for loans in small amounts and their role in the interest rate controversy is a story of determination and effort toward a goal which was never defined exactly so that all could work toward a common end. Traditional banking practice of two decades ago looked with skepticism on the policy of making consumer loans and tradition is a powerful force in banking circles. The first step toward overcoming their reluctance to make small loans was probably an indirect one taking the form of loaning to the institutions specializing in lending to consumers. Personal loan departments gradually made their appearance but small cash installment loans were but a small percentage of the total loans made. Dauer cites three reasons for the lack of competition on the part of the banks in the small loan field:¹²

1. The average commercial bank had profitably employed its facilities in financing agriculture and business enterprises.

2. Commercial bankers were traditionally reluctant to grant credit for "non-productive purposes."

3. The extension of consumer credit was regarded by banks as unprofitable and uneconomic because loans for small amounts entail high operating costs, generally in excess of the rates of charge permitted banks under the usury laws.

12. Dauer, *COMPARATIVE OPERATING EXPERIENCE OF CONSUMER INSTALLMENT FINANCE AGENCIES AND COMMERCIAL BANKS, 1929-41* (Nat'l. Bureau of Economic Research, 1943).

The general credit expansion of the 1930 to 1940 period and the partial overthrow of many traditional banking concepts helped ease the bank's entry into the small loan field. The "non-productive" feature also gave way under the pressure of competitive forces. The remaining objection of the banks, the limitations imposed by the interest rate statutes, came under attack in Missouri beginning in the late '30's and the controversy reached its culmination at the constitutional convention. Other specialized agencies in the consumer credit field either allowed interest rates in excess of the usury statutes or avoided these statutes by way of favorable judicial decisions or various technical devices. Through the benefit of these competitive advantages the specialized agencies soon outstripped the commercial banks, who only recently are catching up in the race to finance the consumer.

The exact position of the banks in Missouri regarding the small loan field has never been explained to the author's satisfaction. Apparently the banks felt they were discriminated against under our special lender system but they never clearly and forcefully stated their position. Several attempts were made to improve their competitive position but for some reason or other they were notably unsuccessful until the constitutional provision emerged in 1945. An explanation has been suggested by some to the effect that a dichotomy of interests between the city and the country banks thwarted attempts at remedial legislation.

Despite the absence of any special enabling legislation it is known that the banks do operate in the small loan field. Personal loan departments are not uncommon in Missouri banks. Unfortunately any information regarding the number of loans made, amount loaned, average size of the loans made on security, etc., is simply not available for commercial banks in Missouri. In the past banks have not made separate reports of their personal loan departments, nor has any cost allocation been undertaken. There is little or no uniformity of lending practices. Hence a detailed analysis is well nigh impossible. Such data as the author has been able to find is presented in table VI. The information was taken from the Federal Deposit Insurance Corporation reports for the years indicated and was published in the annual summaries of Assets and Liabilities of Operating Insured Banks. The material is not directly comparable with the small loan company reports. The effects of the war years on personal loans is readily apparent from the figures. The increase, percentage wise and in dollar amount, after 1945 is explained by several factors. Most important of course was the return to "normalcy"

with more consumer goods available, more prospective borrowers, etc. While the exact amount is not determinable, at least part of the increase after 1945 was caused by the withdrawal from the consumer credit field of most of the specialized agencies due to the interest rate reduction for those agencies to 8 per cent per annum. Over the years consumer credit had proved a profitable enterprise and had served to stimulate the interest of the commercial banks in the personal loan field.

TABLE VI
PERSONAL CASH INSTALLMENT LOANS MADE TO INDIVIDUALS BY
COMMERCIAL BANKS IN MISSOURI

Year	Number of Banks Reporting	Personal Cash Installment Loans (a) Add 000	All Other Loans	Total All Loans	Cash Install- ment loans as % of Total
1939	590	(b)	\$ 88,282	\$ 434,705	—
1940	580	(b)	105,635	482,407	—
1941	577	\$ 9,192		574,292	1.60
1942	574	7,358		582,224	1.26
1943	566	5,375		536,173	1.00
1944	563	5,132		591,870	0.86
1945	562	6,071		651,796	0.93
1946	565	8,946		828,306	1.08
1947	564	13,761		1,048,488	1.31
1948	568	17,907		1,248,887	1.43
1949	571	20,199		1,242,335	1.63
1950	573	23,378		1,404,586	1.66

(a) Loans to individuals are subdivided as follows:

1. Retail auto installment paper
2. Other retail installment paper
3. Repair and modernization loans
4. Personal cash installment loans
5. Single payment loans of \$3000 and less
6. Single payment loans of more than \$3000

(b) Prior to 1941, personal cash installment loans were classed under the "all other loan" category.

Since the adoption of the new constitution it is apparent that any rates of interest applying to particular classes of loans will be available to the commercial banks. However, it is questionable whether the pattern of consumer financing will be altered appreciably under the new legislation. Banks as a whole have not developed as extensively as have the specialized lending agencies the technique of small loan financing. The clientele of the various

lenders differ a great deal and only in the smaller communities is it likely that banks will expand their small loan business. In the industrial communities the competition offered by commercial banks will probably not be too extensive. However, the entry of the banks into the field will have a desirable effect to the extent that it injects competition in the small loan business.

CREDIT UNIONS

Mr. Gisler has already defined a credit union as "a group of persons united by some common interest (ordinarily employment in the same business establishment) who pool their savings in order to have a fund from which to make loans to members of the group in time of need."¹³ Those persons proposing to organize a credit union may seek a charter under the Missouri Credit Union Act or under the Federal Credit Union Law.¹⁴ Since the two acts are very similar in their content, the differences for our analysis can be ignored. There has been, however, a strong tendency in Missouri to prefer the state act, and approximately 90% of the credit unions are so organized.¹⁵ An official of the Missouri Credit Union League, the parent company of our credit unions and supported by them, told the author that they considered our state law an excellent one and that they were organizing new credit unions as rapidly as possible.

Credit unions, because of the nature of their business structure, can operate successfully at lower rates of interest than many other consumer lending agencies. The Missouri law exempted credit unions from the usury statutes and permitted them an interest rate of 1% per month, a flat charge on declining balances. The constitutional provision forced a reduction to two thirds of 1% per month, a not too drastic cut, and the credit union lenders continued business pretty much as before. The two limitations to cooperative lending on a large scale, namely that capital formation is limited by factors other than the success or profitability of the concern and that employees or members are reluctant to air their financial difficulties to fellow workers or members, are at least partially offset by the following operating advantages:

1. A comparatively low salary and rental expense. Many of the services of these cooperative organizations are gratuitously per-

13. See Gisler, *supra*, p. 216.

14. Mo. REV. STAT. § 370.010 *et. seq.* (1949); 12 U.S.C. § 1757 (1946).

15. The figures from the Monthly Labor Review, September, 1940 and August, 1941, show that of a total of 351 credit unions in Missouri in 1930, 325 were chartered, 26 federally chartered. In 1940, 350 out of 377 credit unions were state chartered.

formed by officers, or else represent an indirect subsidy in the form of services performed during working hours. It is not uncommon, too, for office space to be provided gratuitously or at nominal cost.

2. A low net loss from bad debts, a minimum expenditure on advertising, and a low investigation cost.
3. An absence of competition in the last five years which has enabled the credit unions to organize and expand rapidly, tending to popularize the movement and reduce the reluctance of members to borrow from their cooperative lender.

A survey of various lenders showed the following facts about credit unions:¹⁶

1. Credit unions showed the lowest operating costs as a percent of total income for all other consumer lending agencies for the prewar years of 1935 to 1941.
2. Credit unions showed a higher operating profit as a percent of total income than all other consumer lending agencies.
3. The interest payments of credit unions were substantially lower as a percent of total income than were the interest payments of other consumer lenders.
4. The average rate of operating profit as a percent of total assets was higher for credit unions than any other lending agency except small loan companies.

Table VII shows the activities of Missouri credit unions since 1939. The figures show vividly the effects of the war and the subsequent recovery. Of particular interest is the growth of loans after 1945. As small loan companies were forced to leave the field for lack of enabling legislation, the credit unions expanded their activities to a new high. As new credit unions are organized the number of loans made and the amount loaned will increase and a threat to small loan company dominance in the small loan field seems likely to develop. Balance sheet figures reported to the Missouri Commissioner of Finance since 1946 indicate that the vast majority of credit union loans are personal loans as distinguished from loans on real estate.¹⁷ The increase in the average size of the loan made by credit unions indicates that the "cream of the loan crop" is being skimmed off by these lenders.

16. DAUER, COMPARATIVE OPERATING EXPERIENCE OF CONSUMER INSTALLMENT FINANCING AGENCIES AND COMMERCIAL BANKS, 1929-41 (National Bureau of Economic Research, 1944). The statements are based on figures of federal credit unions but are generally applicable to all credit unions.

17. *Biennial Report*, Division of Finance of the Department of Business and Administration (1950).

TABLE VII

NUMBER OF LOANS MADE, AMOUNT LOANED, LOANS OUTSTANDING AT THE
END OF THE YEAR, AND AVERAGE SIZE OF LOAN, BY STATE AND
FEDERAL CHARTER CREDIT UNIONS OF MISSOURI^(a)

Year.	Number of Credit Unions	Number of Loans Made	Amount Loaned During Year	Loans Out- standing at End of Year	Average Size of Loan Made
1939	351				
	Reporting 334	59,657	\$ 7,478,092	\$ 5,867,109	\$125
1940	377				
	Reporting 355	68,689	9,688,709	7,242,490	141
1941	396				
	Reporting 386	78,918	11,748,393	7,720,490	148
1942	395				
	Reporting 386	64,492	6,686,808	4,810,631	104
1943	391				
	Reporting 381	50,342	5,740,274	3,520,332	114
1944	378				
	Reporting 359	44,328	5,432,884	3,185,791	123
1945	369				
	Reporting 340	41,887	4,868,432	3,116,292	111
1946	384				
	Reporting 373	29,581	5,302,391	4,384,999	179
1947	372				
	Reporting 372	41,370	10,876,829	7,950,803	263
1948	383				
	Reporting 383	67,214	16,272,630	12,481,025	242
1949	393				
	Reporting 393	82,463	19,699,307	16,260,016	238
1950	State Chartered 384			18,109,637	

(a) The figures are from the "monthly Labor Review" published by the Bureau of Labor Statistics.

The cooperative movement is gaining momentum in many fields and a valuable contribution to the solution of the small loan problem is being offered by the credit unions. They have gained a new position of prominence in Missouri in the past few years and should their popularity continue to increase at the current rate we can expect the credit union to offer more competition to other consumer lenders than ever before.

CONCLUSIONS

Immediately upon undertaking an analysis of the activities of various lenders in the small loan business one is impressed with the dearth of pertinent data available. In the past the small loan companies furnished the best source of information, but even in their case the entrepreneurial investment of the lender was not indicated. Fortunately under the new small loan law, just recently passed, we will be provided with adequate data from all lenders in the business, a welcome relief from past conditions. One more statement may be made regarding the figures of the Commissioner of Finance. It seems impossible from a practical standpoint for the examiners of the Finance Division to make an annual inspection of every small loan lender in addition to their other duties. The author believes, however, that a random sample of lenders examined periodically at unannounced intervals would accomplish the desired result of adding additional authority to the annual reports.

Under adequate enabling legislation the small loan business tends to be dominated by small loan companies. This is due primarily to two factors:

1. Small loan companies have developed the technique of making small loans to a higher degree than have other lending agencies.
2. Under the old special lender system, other lenders could not present rigorous competition.

However, under the new legislation we may expect both of these factors to gradually diminish in importance. Banks and credit unions, especially the latter, are rapidly expanding their small loan volume and may seriously threaten the dominance of the small loan company.

A new pattern of consumer financing is emerging in Missouri, and the novelty of Missouri's small loan situation should provide much interesting data for re-examination at some future date.